

Message Text

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43

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 SAJ-01

EURE-00 DRC-01 /178 W

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P R 211731Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 3862

INFO: RUESEBQ/AMEMBASSY BERN 0884

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS ROME 3941

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: TREASURY MINISTRY AUTHORIZES NEW TREASURY BILL ISSUE

PASS TREASURY AND FRB

REF: ROME 3732 OF MARCH 19, 1974

1. /SUMMARY/. FOLLOWING ON HEELS OF RECENT RESTRICTIVE
CREDIT MEASURES ADOPTED BY GOI AND DESCRIBED IN REFTTEL,
TREASURY MINISTRY ON MARCH 22 ISSUED DECREE PROVIDING FOR
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NEW TREASURY BILL (BOT) ISSUE IN AMOUNT OF 324 BILLION LIRE

WITH FOUR-YEAR MATURITY DATE OF APRIL 1, 1978. NOMINAL PRICE OF 98.00 PROVIDES YIELD ON DISCOUNT BASIS OF 7.5 PERCENT. NEW BOT ISSUE WILL BE SOLD IN MARKET AND REPLACES NINE-YEAR 5 PERCENT 300.5 BILLION LIRE BOT ISSUE WHICH MATURES APRIL 1, 1974. /END SUMMARY/.

2. IN ITALIAN CONTEXT, "NEW-STYLE" MEDIUM-TERM BOT ISSUE WITH RELATIVELY SHORT MATURITY DATE AND HIGHER YIELD WILL PROVIDE TERMS MORE IN LINE WITH PREVAILING HIGHER INTEREST RATES IN ITALY AND ABROAD. HOPE IS THAT MORE COMPETITIVE YIELD/MATURITY TERMS WILL REVIVE INVESTOR INTEREST IN DOMESTIC AS WELL AS OTHER EC FINANCIAL MARKETS.

3. FINANCIAL PRESS REPORTS THAT TIGHTENING OF SHORT-TERM CREDIT AND ISSUANCE OF NEW SHORTER-TERM HIGHER-YIELD BOT'S REFLECT FIRM GOI DETERMINATION TO COMBAT INFLATION AND BALANCE OF PAYMENTS PROBLEMS WHILE AT SAME TIME FACILITATING EC MONETARY COOPERATION. HOWEVER, FINANCIAL PRESS ALSO UNDERSCORES POTENTIAL DEFLATIONARY EFFECT OF TIGHT CREDIT POLICY AND CITES FACT THAT NEGATIVE IMPACT OF TIGHTER CREDIT ON INDUSTRIAL INVESTMENTS WILL BEGIN TO BE FELT AROUND MID-YEAR, AT WHICH TIME GOI WILL BE FACED WITH PROBLEM EITHER OF ADOPTING APPROPRIATE DEMAND MANAGEMENT POLICIES TO EXPAND INTERNAL DEMAND OR OF FACING POSSIBILITIES OF INDUSTRIAL DOWNTURN AS CONSEQUENCE OF TIGHT CREDIT POLICIES.

4. /COMMENT/. FINANCIAL PRESS CARRIES COMMENTS MADE YESTERDAY BY BANK OF ITALY GOVERNOR CARLI THAT GOI ECONOMIC POLICY OBJECTIVES CONTINUE TO FAVOR "OPERATION TWIST" OF RELATIVE INCREASE IN SHORT-TERM INTEREST RATES WHILE LONG-TERM RATES REMAIN MORE STABLE. FACT REMAINS, HOWEVER, THAT IN TERMS OF INVESTOR INTEREST, BOT ISSUE WITH DISCOUNTED YIELD OF 7.5 PERCENT TO REPLACE NINE-YEAR 5 PERCENT BOT ISSUE MAY PROVE TO BE TOO LITTLE, TOO LATE AGAINST BACKGROUND OF SHARPLY-RISING SHORT-TERM INTEREST RATES. VOLPE

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